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REPORT OF THE GROUP OF EXPERTS ON AGRICULTURAL INSURANCE IN DEVELOPING COUNTRIES

convened by the Secretary-General of UNCTAD

at the Palais des Nations, Geneva
on 28 and 29 January 1993

CONTENTS

		Paragraphs
Letter of transmittal to the Secretary-General of UNCTAD		
I.	Organizational matters	1 - 2
II.	Introduction	3 - 4
III.	Discussion on agricultural insurance in developing countries	5 - 17
IV.	Recommendations regarding further work by the UNCTAD secretariat	18

Annex

List of participants

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Letter of transmittal to the Secretary-General of UNCTAD

Sir,

I have the honour to submit herewith the report of the Group of Experts called for consultation on agricultural insurance in developing countries.

The experts invited by you, who attended in their personal capacities, held their session at the Palais des Nations, Geneva, on 28 and 29 January 1993. The Group unanimously elected me as its Chairman.

The session was attended by 17 experts selected by the Secretary-General of UNCTAD, representing organizations involved in agricultural insurance in developing countries and international reinsurers and consultants. A representative of FAO also attended.

The experts discussed various aspects of rural insurance in general and agricultural insurance in particular, against the background of a study prepared by the UNCTAD secretariat (UNCTAD/SDD/INS/1). On the basis of the discussions held over two days, I have the pleasure of submitting herewith our report.

I wish to express our appreciation to the UNCTAD secretariat for the assistance rendered during our deliberations and in the preparation of this report.

On behalf of the Group of Experts I have the honour to submit this report to you for consideration and for such action as you consider appropriate.

Respectfully yours,

M. Putty.

Report of the Expert Group on Agricultural Insurance 28-29 January 1993

I. ORGANIZATIONAL MATTERS

1. A meeting of a Group of Experts for consultation on agricultural insurance was convened on 28 and 29 January 1993 by the Secretary-General of UNCTAD. The names of participants appear in the annex to this report.

2. At its first meeting, the Group elected Mr. M. Putty, General Manager, The Sugar Insurance Board Fund, Mauritius, as Chairman.

II. INTRODUCTION

3. Agriculture is a dominant sector in a large number of developing countries and accounts for a major part of their GNP. It continues to be an important sector for employment, and agricultural products are important export items. Recognizing the importance of agriculture, the UNCTAD secretariat undertook a study on agricultural insurance in developing countries (UNCTAD/SDD/INS/1 of 26 November 1992). A summary of the study is available in UNCTAD/SDD/INS/1(Summary). The Expert Group considered the study in particular, and the subject of rural insurance in general. The Group was also requested to examine the possible direction and content of further work of the UNCTAD secretariat in this area, taking into account the present state of development of rural and agricultural insurance in developing countries and the needs of the agricultural sector.

4. The Group was highly appreciative of the study (UNCTAD/SDD/INS/1), which it considered to be a useful and comprehensive document that would serve as an important reference document for developing countries engaged in rural insurance.

III. DISCUSSION ON AGRICULTURAL INSURANCE IN DEVELOPING COUNTRIES

5. Agricultural insurance has an important developmental role and is an essential service in stabilizing financial fluctuations for those engaged in agriculture. In view of the high risks involved in agricultural insurance, particularly in the event of a natural catastrophe, governments will have to support - as a matter of policy - programmes of agricultural insurance with appropriate resources for some time to come. It is expected that the commercial insurance sector would gradually assume greater responsibilities as infrastructural support becomes more readily available, skills are improved, the capital base is strengthened and adequate reinsurance support becomes available.

6. The Expert Group highlighted the following aspects:

(a) Owing to lack of experience, adequate capital base and information, the insurance industry in developing countries has not been able to engage in this class of business to any significant extent in the past. It is appropriate for the insurance sector to examine methods of greater involvement. This can be done in a phased manner.

(b) The insurance industry could expand its services more easily to the commercially oriented agricultural producers.

(c) It is recognised that a large sector of the agricultural community consisting of subsistence farmers is and will have to be continuously supported in various ways. Such support should include agricultural insurance. It is noted that support for agricultural insurance, including premium subsidies, continues to be provided by governments in certain developed economies.

7. The Group feels that premium rates for agricultural insurance should be statistically or actuarially determined, and subsidies should be relevant to such a premium. This will facilitate obtaining the much needed reinsurance in the international market.

8. In many developing countries disaster relief is provided through established funds or in an ad hoc manner. Commercial agricultural insurance should be independent of disaster relief schemes. In any case, relief should not be disbursed in a manner which acts as a disincentive to agricultural insurance. Wherever government-sponsored relief programmes exist, efforts should be made to integrate them progressively with the commercial agricultural insurance schemes.

9. The Group urges governments to initiate measures to encourage the development of agricultural insurance. For this purpose action is necessary in the following areas:

(i) Creation of an economic, trading, legislative and fiscal environment congenial to the development of agricultural insurance;

(ii) Better enforcement of rules and statutes relating to agricultural production;

(iii) Support from financial institutions and foreign-exchange control authorities for reinsurance transactions;

(iv) Development of skilled manpower in agricultural insurance through specialized training and education;

(v) Enhancement of the capital base of insurance organizations in order to enable them to assume larger risks inherent in agricultural insurance;

(vi) Creation of infrastructure for the accurate and timely collection of meterological data in respect of agricultural activities and support services such as extension services, irrigation, fertiliser, pest control, etc.

10. The experience of developed countries in agricultural insurance should be studied systematically, particularly in respect of the mistakes made, so that these could be avoided by the developing countries.

11. In the first phase of engagement in agricultural insurance, the commercial insurance sector should offer crop insurance covers for specific crops and perils, as well as manageable limits of indemnity rather than attempting universal or comprehensive covers, which have high risk exposure. This will provide an opportunity to build up valuable data and experience for future expansion.

12. It is realised that governments will have to provide significant support to agricultural insurance in its early stages. However, this support should be well defined and may progressively diminish.

13. Agricultural insurance schemes require the creation of an awareness among the rural population about the benefits of agricultural insurance. The support of the government in this area would be invaluable.

14. It is recognized that in certain circumstances cooperatives can play a significant role in furthering agricultural insurance, particularly in lines such as livestock, poultry and other rural activities. Suitable legislative and monitoring framework is, however, required.

15. It is felt that, apart from crop insurance, which has many problems, the insurance sector of developing countries should expand its activities to more manageable lines, such as livestock, poultry and other simple risks which do not pose high exposure problems.

16. It is felt that, in defining the government's role, one option could be that it assumes the responsibility for certain perils which have a high risk and/or perils which are beyond the capacity of insurance markets, while leaving the more manageable risks to the insurance sector. This approach is followed in some developed economies.

17. Among the many factors inhibiting the expansion of agricultural insurance are high entrance costs and subsequent management costs. The introduction of risk management and loss prevention techniques backed by proper research would in due course assist in reducing both costs and losses.

IV. RECOMMENDATIONS REGARDING FURTHER WORK BY THE UNCTAD SECRETARIAT

18. The experts felt that it was necessary for the UNCTAD secretariat to follow up the study UNCTAD/SDD/INS/1 with further work in the areas of research and technical cooperation. The following areas of study and technical cooperation are proposed for the consideration of and implementation by the UNCTAD secretariat. In these tasks it should seek the cooperation of FAO and other agencies as appropriate.

A. Research and analysis

(1) Study on livestock insurance in developing countries, including schemes of poultry and aquaculture insurance;

(2) An assessment of major agricultural insurance schemes in operation in various developing countries, analysing their strength and weaknesses and the legal and financial environment in which they operate;

(3) An analysis of the possibilities of establishing a link between agricultural insurance schemes and rural credit and other farm services, including cooperatives, in order to increase penetration into rural areas;

(4) Study of systems of publicly administered programmes of disaster relief, with the objective of recommending ways of suitable coordination and integration of these programmes with agricultural insurance;

(5) Study on possible options for financing emerging agricultural insurance schemes and their cost effectiveness, and the role of direct insurers, reinsurers and the State;

(6) Study on methodologies for cost-benefit analysis of agricultural insurance;

(7) Analysis of ways to improve operational cost structures of agricultural insurance;

(8) Study on methodologies for establishing rating systems for agricultural insurance;

(9) Analysis of experiences of developed countries and an assessment of their relevance to schemes in developing countries;

(10) Study on minimum criteria for construction of specialized buildings, such as greenhouses, and poultry farm sheds, utilized in agriculture.

B. Technical cooperation

(11) Provision of assistance to regional competent entities in the collection and dissemination of data relating to agricultural insurance.

(12) Development of software for data processing related to agricultural insurance.

(13) Human resources development including design and organization of training activities for:

(a) designers and implementors of new agricultural insurance schemes;

(b) managers and operational staff of existing schemes;

(c) staff of related services, including loss adjusters, assessors and surveyors.

(14) Holding of workshops on a regional basis with the purpose of studying in detail the practical operation of agricultural insurance schemes, their infrastructure, existing loss assessment and claims-handling procedures, marketing practices, etc. This should preferably be done in cooperation with existing associations of agricultural insurers, such as the Latin American Agricultural Insurers Association (ALASA).

(15) Exchange of personnel between existing agricultural insurance agencies for the purpose of training.

Annex

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